

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego District Public Library	County Kalamazoo
Fiscal Year End December 31, 2006	Opinion Date February 8, 2007	Date Audit Report Submitted to State	

We affirm that:

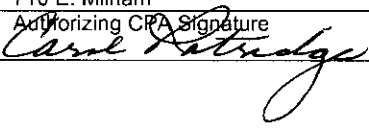
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|--------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			Telephone Number 269-329-7007	
Street Address 710 E. Milham		City Kalamazoo	State Michigan	Zip 49002
Authorizing CPA Signature 		Printed Name Carol A. Patridge, CPA		License Number 1101019740

**Otsego District Public Library  
Otsego, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**December 31, 2006**

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**Otsego District Public Library**  
**Otsego, Michigan**  
**Members of the Library Board and Administration**  
**December 31, 2006**

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**MEMBERS OF THE LIBRARY BOARD**

John Chapman	President
Renny Ransbottom	Vice President
Diana Gilmer	Treasurer
Nancy Seibert	Secretary
Jacqueline Bennett	Trustee
Sharon Tans	Trustee

**ADMINISTRATION**

Ryan Wieber	Librarian
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Kalamazoo, MI 49002  
Phone (269) 329-7007 / (800) 375-3968  
Fax (269) 329-0626

## Independent Auditors' Report

Members of the Library Board  
Otsego District Public Library  
Otsego, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of Otsego District Public Library as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Otsego District Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Otsego District Public Library as of December 31, 2006 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements but supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Otsego District Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan

February 8, 2007

**Otsego District Public Library**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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This section of the Otsego District Public Library annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2006. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds – the General Fund and the Capital Projects Funds. The annual report is arranged as follows:

***Management's Discussion and Analysis (MD&A)***  
***(Required Supplemental Information)***

***Basic Financial Statements***

***Government-wide Financial Statements***

***Fund Financial Statements***

***Notes to the Basic Financial Statements***

***(Required Supplemental Information)***  
***Budgetary Information for General Fund***

**Otsego District Public Library**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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**Reporting the Library as a Whole – Government-wide Financial Statements**

The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the Library's financial health, or position. Over time, increases or decreases in the Library's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, unrestricted State aid, and penal fines finance most of these activities.

**Reporting the Library's Funds – Fund Financial Statements**

The Library's fund financial statements provide detailed information about the Library's funds – not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help it control and manage money for particular purposes and to show that it's meeting its legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds – All of the Library's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.



**Otsego District Public Library**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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**The Library as a Whole**

Recall that the statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of December 31, 2006 and 2005.

TABLE 1

Governmental Activities

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 1,084,225	\$ 852,011
Property and equipment, net	<u>726,900</u>	<u>726,829</u>
Total assets	<u>1,811,215</u>	<u>1,578,838</u>
<b>Liabilities</b>		
Current liabilities	<u>134,243</u>	<u>4,687</u>
Total liabilities	<u>134,243</u>	<u>4,687</u>
<b>Net Assets</b>		
Invested in property and equipment – net	726,990	726,829
Restricted	226,712	143,889
Unrestricted	<u>723,270</u>	<u>703,433</u>
Total net assets	\$ <u>1,676,972</u>	\$ <u>1,574,151</u>

The above analysis focuses on the net assets.

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the year 2006 and 2005.

**Otsego District Public Library**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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TABLE 2

Governmental Activities

	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Property taxes	\$ 356,287	\$ 346,284
State aid	9,835	11,841
Penal Fines	77,115	72,631
Other revenue	<u>66,097</u>	<u>51,233</u>
Total Revenue	509,334	481,989
<b>Functions/Program Expenses</b>		
Library services	<u>406,513</u>	<u>365,767</u>
Excess of revenues over expenditures	\$ <u><u>102,821</u></u>	\$ <u><u>116,222</u></u>

Property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources. The Library Board and librarian must annually evaluate the needs of the Library and balance those needs with other available unrestricted resources.

**The Library as a Whole**

The Library's net assets increased \$102,821 in 2006. The main reasons for the increase were due to an increase in interest on investments revenue and to the continued growth of the Library's property tax base.

The Library's primary source of revenue is from property taxes, which represents 70% of total revenue. 2006 property tax revenue increased by 3% compared to 2005. Penal fine revenue exceeded budgeted expectations by 29%, and state aid revenues decreased by 17%. Interest on investments was \$38,980, 205% higher than expected, and contributions and donations (cash and pledges) for the year totaled \$12,252.

Salaries and fringes continue to be a significant expense, representing 53% of the Library's total expenses.

**Otsego District Public Library**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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**The Library's Fund**

An analysis of the Library's major funds is included on pages 4-3 and 4-5, in the first column. The fund column provides detailed information about the most significant funds – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities such as the Library's current capital campaign fund, listed as "Capital Projects Fund."

The fund balance of the General Fund increased during 2006 by \$101,199.

**Library Budgetary Highlights**

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. These budget amendments occurred in various accounts, but were not significant.

**Capital Assets Administration**

**Capital Assets**

At December 31, 2006, the Library had \$337,889 invested in capital assets, including land, buildings, and furniture and equipment in accordance with its capitalization policy. Amounts under \$1,000 are not included herein.

	<u>2006</u>
Assets not being depreciated – Land	\$ 229,735
Building and building improvements	396,405
Equipment and furniture	83,639
Library books	<u>543,800</u>
Total capital assets	1,253,579
Less accumulated depreciation	<u>(526,589)</u>
Net capital assets	\$ <u><u>726,990</u></u>

**Otsego District Public Library  
Management's Discussion and Analysis  
December 31, 2006**

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**Next Year's Millage Rate**

In August 2007, the Library Board will consider the millage rate to be levied for Winter 2007 (these revenues will be received and recorded in fiscal year 2008). The 2006 rate is .9888 mills per thousand dollars of taxable value.

**Contacting the Library's Financial Management**

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library at 219 South Fenner Street, Otsego, MI 49078.

**Otsego District Public Library**  
**Statement of Net Assets**  
**December 31, 2006**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Cash	\$ 501,712
Investments	427,859
Due from other governments	4,987
Pledges receivable	149,667
Total current assets	<u>1,084,225</u>
Noncurrent assets	
Capital assets	
Land	229,735
Building and improvements	396,405
Equipment and furniture	83,639
Library books	543,800
Less: accumulated depreciation	<u>(526,589)</u>
Total noncurrent assets	<u>726,990</u>
Total assets	<u>1,811,215</u>
<b>Liabilities</b>	
Current liabilities	
Salaries and benefits payable	2,151
Accrued liabilities	6,364
Deferred revenue	125,728
Total current liabilities	<u>134,243</u>
<b>Net Assets</b>	
Invested in capital assets	726,990
Restricted for:	
Capital projects	226,712
Unrestricted	723,270
Total net assets	<u>\$ 1,676,972</u>

See Accompanying Notes to Financial Statements

**Otsego District Public Library**  
**Statement of Activities**  
**For the Year Ended December 31, 2006**

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**Revenue**

Property taxes	\$ 356,287
State aid	9,835
Penal fines	77,115
Interest on investments	38,980
Contributions and donations	8,752
Library fines and fees	16,696
Other miscellaneous	<u>1,669</u>
Total revenue	<u>509,334</u>

**Expenses**

Advertising	16,240
Conferences, workshops, and travel	2,349
Co-op expense	2,759
Insurance	6,441
Library books and materials	27,442
Miscellaneous	8,515
Professional fees	7,091
Repair and maintenance	12,214
Salaries and fringe benefits	211,370
Supplies	14,052
Technology	20,727
Utilities	19,246
Depreciation	56,626
Loss on sale of assets	<u>1,441</u>
Total expenditures	<u>406,513</u>

**Change in Net Assets**

102,821

**Net Assets** - beginning of year

1,177,926

**Prior period adjustment**

396,225

**Net Assets** - beginning of the year as restated

1,574,151

**Net Assets** - end of year

\$ 1,676,972

See Accompanying Notes to Financial Statements

**Otsego District Public Library**  
**Balance Sheet - Governmental Funds**  
**December 31, 2006**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 423,654	\$ 78,058	\$ 501,712
Investments	427,859	-	427,859
Due from other governments	4,987	-	4,987
Due from other funds	1,013	-	1,013
Total assets	<u>\$ 857,513</u>	<u>\$ 78,058</u>	<u>\$ 935,571</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Salaries and benefits payable	\$ 2,151	\$ -	\$ 2,151
Deferred revenues	50,728		50,728
Due to other funds	-	1,013	1,013
Total liabilities	<u>52,879</u>	<u>1,013</u>	<u>53,892</u>
<b>Fund Balance</b>			
Reserved for capital projects	-	77,045	77,045
Designated for capital improvements	28,252	-	28,252
Designated for property investments	452,504	-	452,504
Designated for memorial and donations	3,836	-	3,836
Undesignated	320,042	-	320,042
Total fund balance	<u>804,634</u>	<u>77,045</u>	<u>881,679</u>
Total liabilities and fund balance	<u>\$ 857,513</u>	<u>\$ 78,058</u>	<u>\$ 935,571</u>

See Accompanying Notes to Financial Statements

**Otsego District Public Library**  
**Reconciliation of the Balance Sheet -**  
**Governmental Funds to the Statement of Net Assets**  
**December 31, 2006**

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**Total fund balances for governmental funds** \$ 881,679

Total net assets reported for governmental activities in the statement of net assets is different because:

Pledges receivable - net of discount, unavailable at December 31, 2006  
for governmental fund purposes 149,667

Capital assets used in governmental activities are not financial resources and therefore  
are not reported in the funds. Those assets consist of:

Land	\$ 229,735	
Buildings and improvements	396,405	
Equipment and furniture	83,639	
Library books	543,800	
Less: accumulated depreciation	<u>(526,589)</u>	726,990

Certain liabilities are not due and payable in the current period and are not reported in the funds.

Accrued vacation	(6,364)
Conditional promises to give	<u>(75,000)</u>

**Net assets of governmental activities** \$ 1,676,972



**Otsego District Public Library**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2006**

	General Fund	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 356,287	\$ -	\$ 356,287
State aid	9,835	-	9,835
Penal fines	77,115	-	77,115
Interest on investments	36,592	2,388	38,980
Contributions and donations	2,413	15,305	17,718
Library fines and fees	16,696	-	16,696
Other miscellaneous	1,669	-	1,669
Total revenues	<u>500,607</u>	<u>17,693</u>	<u>518,300</u>
Expenditures			
Advertising	16,240	-	16,240
Conferences, workshops, and travel	2,349	-	2,349
Co-op expense	2,759	-	2,759
Insurance	6,441	-	6,441
Library books and materials	27,442	-	27,442
Miscellaneous	8,515	-	8,515
Professional fees	7,091	-	7,091
Repair and maintenance	12,214	-	12,214
Salaries and fringe benefits	205,006	-	205,006
Supplies	13,148	904	14,052
Technology	20,727	-	20,727
Utilities	19,246	-	19,246
Capital outlay	58,230	-	58,230
Total expenditures	<u>399,408</u>	<u>904</u>	<u>400,312</u>
Excess of revenues over expenditures	101,199	16,789	117,988
Fund balance - beginning of year	<u>703,435</u>	<u>60,256</u>	<u>763,691</u>
Fund balance - ending	<u>\$ 804,634</u>	<u>\$ 77,045</u>	<u>\$ 881,679</u>

See Accompanying Notes to Financial Statements

**Otsego District Public Library**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2006**

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**Net change in fund balances - total governmental funds** **\$ 117,988**

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 58,230	
Depreciation expense	(56,626)	
Sale of capital assets (net book value)	<u>(1,441)</u>	163

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds

Pledges receivable		(8,966)
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Expenses are recorded when incurred in the statement of activities.

Accrued vacation		<u>(6,364)</u>
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**Change in net assets of governmental activities** **\$ 102,821**

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Note 1 - Nature of Organization and Summary of Significant Accounting Policies**

The accounting policies of Otsego District Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library's significant accounting policies.

**Reporting Entity**

The Library is located in the City of Otsego, Michigan and is governed by an appointed six-member board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

**Government-wide Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the

year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

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to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and penal fines associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for resources for the acquisition or construction of capital facilities or equipment by the Library.

#### **Financial Statement Amounts**

*Bank Deposits and Investments* – The Library has defined cash to include cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

*Receivables and Payables* – In general, outstanding balances between funds are reported as "due to/from other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March

1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

*Capital Assets* – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Furniture and equipment	5 – 10 years
Improvements	10 – 20 years

#### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

#### **Comparative Data**

Comparative data is not included in the Library's financial statements.

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Note 2 - Stewardship, Compliance, Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by November 1. A library is not considered in violation of the Act if reasonable procedures are in use by the library to detect violations.

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year end and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

**Note 3 - Deposits and Investments**

The Library's deposits and investments were reported in the basic financial statements in the following categories:

Cash	\$ 501,712
Investments	<u>427,859</u>
Total	<u>\$ 929,571</u>

The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 501,712
Investments in securities, mutual funds and similar vehicles	<u>427,859</u>
Total	<u>\$ 929,571</u>

*Interest rate risk* – The Library does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Library has no investment policy that would further limit its investment choices.

*Concentration of credit risk* – The District has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$366,851 of the District's bank balance of \$169,783 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 4 - Unconditional Promises To Give**

During the year ended December 31, 2004, Otsego District Public Library began a capital campaign and received pledges for the construction of a new library. The amount of pledges outstanding at December 31, 2006 is as follows:

Gross contributions receivable	\$ 84,382
Less: Unamortized discount on future contributions	<u>(9,715)</u>
Contributions receivable, net	<u>\$ 74,667</u>

Gross contributions receivable at December 31, 2005 are due according to the following schedule:

Less than one year	\$ 68,207
One to five years	<u>16,175</u>
Total gross contributions receivable	<u>\$ 84,382</u>

**Note 5 - Conditional Promises To Give**

As of December 31, 2006, the Library has been promised \$75,000 from contributors. They will receive this promise if they successfully pass a bond millage to construct a new library.

**Note 6 - Capital Assets**

A summary of the changes in capital assets is as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Assets not being depreciated				
Land	\$ 189,735	\$ 40,000	\$ -	\$ 229,735
Assets being depreciated				
Buildings and improvements	39,380	361,025	4,000	396,405
Furniture and equipment	76,749	14,730	7,840	83,639
Library books	505,100	38,700	-	543,800
Total assets being depreciated	621,229	414,455	11,840	1,023,844
Less accumulated depreciation for				
Buildings and improvements	24,444	8,578	3,000	30,022
Furniture and equipment	37,138	13,058	7,399	42,797
Library books	418,780	34,990	-	453,770
Total accumulated depreciation	480,362	56,626	10,399	526,590
Net capital assets being depreciated	140,867	357,829	1,441	497,254
Net capital assets	\$ 330,602	\$ 397,829	\$ 1,441	\$ 726,989

Depreciation for the year ended December 31, 2006 amounted to \$56,626.

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

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**Note 7 - Interfund Receivable And Payable**

Individual interfund receivable and payable balances at December 31, 2006 were:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>	<u>Purpose</u>
General Fund	\$ 1,013	\$ -	Reimbursement for capital campaign expenditures
Capital Projects Fund	-	1,013	Reimbursement for capital campaign expenditures paid by General Fund
	<u>\$ 1,013</u>	<u>\$ 1,013</u>	

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

**Note 8 - Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Library has purchased commercial insurance for the protection of real and personal property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

**Note 9 - Retirement Plan**

*Plan Description*

The Library has instituted a defined contribution pension plan through the City of Otsego for all full-time employees with six months of service. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service. Normal retirement is age 65, with early retirement

privileges commencing at age 55. There is no mandatory retirement age.

The Library's covered payroll and its total current payroll for all employees amounted to \$86,951 and \$162,522 respectively in the year ended December 31, 2006.

*Contributions Required and Made*

Covered employees of the Library are provided a contribution of ten percent. For the year ended December 31, 2006 the Library forwarded to the City of Otsego \$9,280.

*Funding Policy and Status*

The Library funds the plan monthly and as of December 31, 2006 no unfunded past service costs existed.

**Note 10 - Fund Equity**

Specific reservations on fund equity include:

*Reserved for capital projects* – This reserve was created to restrict the use of all resources earned by the Capital Projects Fund. This money is earmarked for major capital purchases.

Specific designations include the following:

*Designated for capital improvements* – This designation was created to indicate funds set aside to cover capital improvements.

*Designated for property investments* – This designation was created to indicate funds set aside for major real property purchases and expenses associated with the purchase of real property.

**Otsego District Public Library**  
**Notes to Financial Statements**  
**December 31, 2006**

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*Designated for memorials and donations* – This designation was created to indicate funds set aside for memorials and donations that are donor-restricted.

**Note 11 - Assets Held By Allegan County Community Foundation**

During 1999, the Otsego District Public Library Irene Galloway Fund was established at the Allegan County Community Foundation. This is an endowment fund and the principal is not expendable. Net income from the fund is reinvested as spendable income. As of December 31, 2006 the fund had a balance of \$6,278 and there were no funds in the spendable fund.

**Note 12 - Prior Period Adjustment**

Retained earnings at the beginning of 2006, for the statement of activities, has been adjusted to correct an error made in 2005. The building was deeded to the Otsego District Public Library from the City of Otsego in December 2004. Had the error not been made, net income for 2005 would have been increased by \$396,225.



**Otsego District Public Library**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended December 31, 2006**

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
<b>Revenues</b>				
Property taxes	\$ 355,700	\$ 355,700	\$ 356,287	\$ 587
State aid	11,000	11,000	9,835	(1,165)
Penal fines	60,000	60,000	77,115	17,115
Interest on investments	12,000	12,000	36,592	24,592
Contributions and donations	-	-	2,413	2,413
Library fines and fees	8,600	8,600	16,696	8,096
Other miscellaneous	-	-	1,669	1,669
Total revenues	<u>447,300</u>	<u>447,300</u>	<u>500,607</u>	<u>53,307</u>
<b>Expenditures</b>				
Advertising	11,000	14,066	16,240	2,174
Conferences, workshops, and travel	2,000	2,000	2,349	349
Co-op expense	3,300	3,300	2,759	(541)
Insurance	6,000	6,000	6,441	441
Library books and materials	61,750	63,022	27,442	(35,580)
Miscellaneous	1,550	6,520	8,515	1,995
Professional fees	16,500	16,500	7,091	(9,409)
Repair and maintenance	10,975	11,050	12,214	1,164
Salaries and fringe benefits	219,500	219,500	205,006	(14,494)
Supplies	8,725	8,997	13,148	4,151
Technology	18,900	18,900	20,727	1,827
Utilities	20,100	20,100	19,246	(854)
Capital outlay	67,000	67,037	58,230	(8,807)
Total expenditures	<u>447,300</u>	<u>456,992</u>	<u>399,408</u>	<u>(57,584)</u>
Excess (deficiency) of revenues over expenditures	-	(9,692)	101,199	110,891
Fund balance - beginning	<u>703,435</u>	<u>703,435</u>	<u>703,435</u>	-
Fund balance - ending	<u>\$ 703,435</u>	<u>\$ 693,743</u>	<u>\$ 804,634</u>	<u>\$ 110,891</u>

February 8, 2007

To the Management and  
Board of Directors of  
Otsego District Public Library

In planning and performing our audit of the financial statements of Otsego District Public Library as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Otsego District Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### **Financial Statement Preparation Controls**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Library financial statements. However, if at any point in the audit we as auditors are part of the Library's control system for producing reliable financial statements, auditing standards indicate that the Library has a control deficiency. The preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency. We recommend that Management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

## **Documentation of Internal Controls**

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Library. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Library completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

## **QuickBooks Accounting Software**

We noted that the Company uses QuickBooks for its accounting software. In many cases QuickBooks is the best option for a Company's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. QuickBooks, unlike most other accounting software packages, does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Admin user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts receivable monies and create write-offs of accounts receivables. Therefore QuickBooks cannot be relied upon to enforce segregation of duties.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the Company's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. The accounting software which is appropriate for a start-up entity may not continue to be appropriate for that same entity as it grows. We are neither recommending for nor against continuing to use QuickBooks as the Company's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

As a result of the aforementioned study, certain matters did come to our attention upon which we would like to comment and offer our recommendations:

#### PROPERTY TAX RECEIPTS

##### Status

The Library should be depositing income from property taxes when it is received. As of December 31, 2006, the Library was holding deposits for taxes representing income for the subsequent year.

##### Suggestion

We recommend the Library deposit these funds as received and record them as deferred revenue. These funds can then be reclassified to the revenue account in the subsequent year.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.



Carol Patridge, CPA